



THE UNIVERSITY OF TEXAS AT DALLAS

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September 5, 2017

Dr. Richard Benson, President
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the School of Arts, Technology, and Emerging Communication (ATEC) as part of our fiscal year 2016 Audit Plan, and the report is attached for your review. The objective of the audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls. The School was created in 2015, and the first dean was appointed in 2016; therefore, the audit also served to assist the new leadership in the continuing development of sound internal controls within the School's operations.

The attached report details recommendations that will assist in improving operations in the following areas:

- Business Plan
- Policies and Procedures
- Risk Assessment and Monitoring
- Cost Center Reconciliations
- Procurement Cards
- Communication and Staff Development

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this review.

Toni Stephens
Chief Audit Executive

UT Dallas Responsible Parties:

Dr. Anne Balsamo, Dean of the School of ATEC
Mr. Todd Fechter, Senior Associate Dean and Associate Professor
Ms. Sandy Farrar, Associate Dean of Technology Resources.

Members of the UT Dallas Institutional Audit Committee:

External Members: Mr. Gurshaman Baweja, Mr. Bill Keffler, Ms. Julie Knecht, Mr. Ed Montgomery
Dr. Hobson Wildenthal, Executive Vice President
Dr. Inga Musselman, Interim Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Mr. Frank Feagans, Vice President and Chief Information Officer
Mr. Rafael Martin, Interim Vice President for Research
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Dr. Kyle Edgington, Vice President for Development and Alumni Relations
Mr. Timothy Shaw, University Attorney

External Agencies:

The University of Texas System Audit Office
Legislative Budget Board, Governor's Office, State Auditor's Office, Sunset Advisory Commission

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Executive Summary

Audit Objective and Scope:

The objective of the audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls. The School was created in 2015, and the first dean was appointed in 2016; therefore, the audit also served to assist the new leadership in the continuing development of sound internal controls within the School's operations.

Conclusion:

Overall, ATEC should enhance processes to improve departmental operations in the areas outlined below.

The following is a summary of the audit recommendations by risk level.

Recommendation	Risk Level	Estimated Implementation Date
(1) Business Plan	Medium	October 15, 2017
(2) Policies and Procedures	Medium	November 1, 2017
(3) Risk Assessment and Monitoring	Medium	December 1, 2017
(4) Cost Center Reconciliations	Medium	September 15, 2017
(5) Procurement Cards	Medium	September 15, 2017
(6) Communication and Staff Development	Medium	August 31, 2017

Responsible Vice President:

Dr. Inga Musselman, Interim Provost

Responsible Party:

Dr. Anne Balsamo, Dean of the School of ATEC

Staff Assigned to Audit:

Project leader: Brandon Bergman, CFE, Senior Auditor
 Staff: Ashley Mathew, Staff Auditor

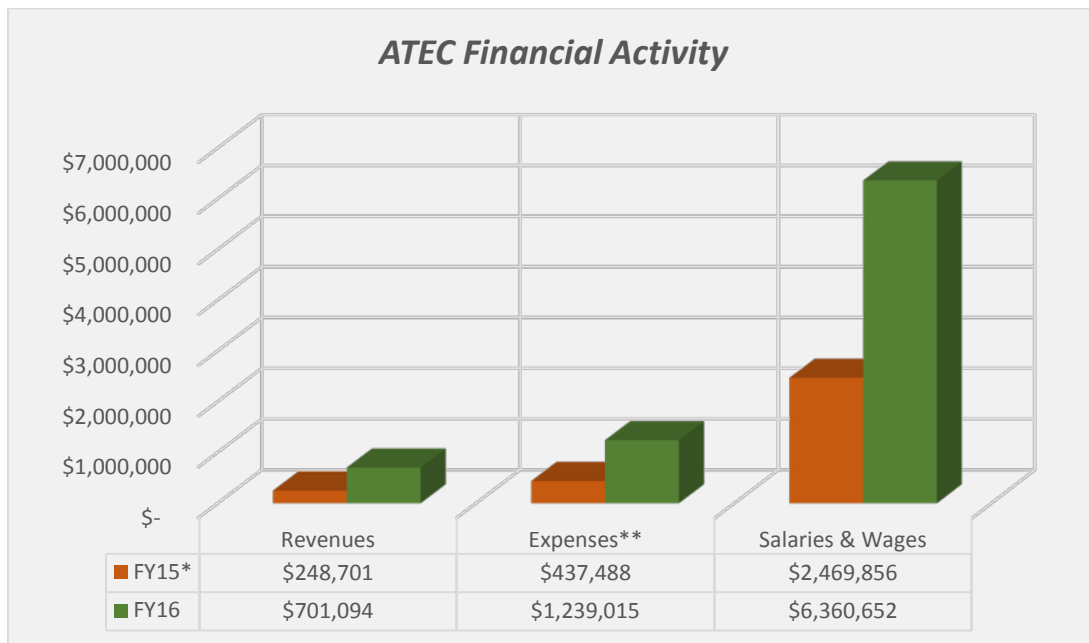
Overall Conclusion

Overall, ATEC should enhance processes to improve departmental operations in the following areas:

- Business Plan (Strategic and Operating Objectives)
- Risk Assessment and Monitoring
- Policies and Procedures
- Cost Center Reconciliations
- Procurement Cards
- Communications and Staff Development

Summary of Financial Activity

The following is a summary of financial activities during the past two fiscal years.



*Financial transactions specific to ATEC did not begin until the spring of 2015.

**Expenses calculation includes cash advances, reimbursements, non-salaries & wages journal truncations, and vouchers.

Objective and Scope

The objective of the audit was to evaluate financial and accounting processes, internal controls systems, and the effectiveness and efficiency of related operations and controls. The School was created in 2015, and the first dean was appointed in 2016; therefore, the audit also served to assist the new leadership in the continuing development of sound internal controls within the School's operations. The review included financial activity for the period from September 1, 2015 to August 31, 2016.

Methodology

The audit methodology included the following:

- Reviewed the School's control environment to determine:
 - If departmental policies and procedures (*including unique job descriptions*) are in place.
 - The organizational structure aligns with management's strategic and operational objectives.
- Determined if the School has an effective risk assessment/awareness process in place.
- Reviewed control activities to determine if controls are adequate and effective in responding to risk regarding:
 - Achievement of strategic objectives
 - Reliability and integrity of financial and operational information
 - Effectiveness and efficiency of operations and programs
 - Safeguarding of assets
 - Compliance with laws, regulations, policies, procedures and contracts
- Determined if internal information and communication methods are effective.
- Determined the effectiveness of the monitoring of internal controls by management.
- Reviewed internal controls for adequacy to safeguard user access to PeopleSoft.
- Determined if internal HR processes are adequate.

Criteria

This review was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as well as UT System and UT Dallas policies and procedures related to internal auditing. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department.

























Additionally, this review was based upon the integrated framework guidance provided by The Committee of Sponsoring Organizations of the Treadway Commission (COSO)¹. COSO is a joint initiative of five sponsoring organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal controls and fraud deterrence.

COSO Integrated Framework areas include:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

¹ <https://www.coso.org/Pages/default.aspx>

Executive Summary – ATEC²



Area	Rating	Area	Rating
Control Environment			
Policies and Procedures		Governance	
Risk Awareness and Monitoring			
Risk Assessment		Monitoring	
Control Activities			
Budget Management		Privacy	
Conflicts of Interest		Property	
Contracting		Purchasing Cards	
Cost Center Reconciliations		Records Management	
Development		Research	
Expenditures		Revenues and Receipts	
Human Resources		Safety	
Information Systems		Segregation of Duties	
Key and Card Access		Travel and Entertainment	
Payroll / Time Reporting			
Information & Communication			
Communication			



Key to Risk Ratings



 Priority
  High
  Medium
  Low
  Not Tested

² See Appendices 1 and 2 for a description of the ratings areas.

Audit Results and Management's Responses

Observation	Risk	Recommendation	Management's Response and Action Plan
<p>1. Business Plan (Strategic and Operating Objectives)</p> <p>No formal business plan is in place defining the School's overall strategic and operational objectives.</p>	<p style="text-align: center;"> Medium</p> <p>Without a plan, the School may have difficulties supporting its achievements and aligning itself with the University's overall strategic and operating objectives.</p>	<p>ATEC should continue their efforts in drafting and implementing an organizational business plan, including its strategic and operating objectives.</p>	<p>Management's Response: Dean Balsamo is working on the creation of the School's first strategic plan. Will be presented to staff and faculty leadership in Sept. A revised organizational chart is also under development, will be significantly updated once the hiring freeze is lifted and important positions can be filled.</p> <p>Estimated Date of Implementation: October 15, 2017</p> <p>Person Responsible for Implementation: Dean Balsamo and Assoc Dean Sandy Farrar</p>
<p>2. Policies and Procedures</p> <p>School does not have a written policies and procedures manual specific to business operations, including detailed and unique job descriptions. However, while no formal manual currently exists, the School is actively working towards its creation (e.g. drafted One Card usage and reconciliation processes, and employee onboarding).</p> <p>Additionally, we noted a number of official employee job descriptions either did not exist, or were the generally non all-inclusive job</p>	<p style="text-align: center;"> Medium</p> <p>Documented policies and procedures assist the School in meeting its mission through clear communication of operational processes. A lack of this manual may lead to inefficiencies and unsteady internal controls.</p> <p>Detailed job descriptions provide clear communication of employee responsibilities, which is especially helpful during annual</p>	<p>The School should continue drafting their policies and procedures manual, including job descriptions, to provide guidance on employee responsibilities'. Once created, management should ensure this information is available to all applicable employees.</p>	<p>Management's Response: As noted, the policy and procedures manual is in draft form. Over the past year, the creation of several new positions, followed by the hiring of new staff, help to clarify job responsibilities. Because many positions are still to be filled, the current set of job descriptions is not accurate.</p> <p>Estimated Date of Implementation: November 1, 2017</p>






Observation	Risk	Recommendation	Management's Response and Action Plan
<p>description used when Human Resources posted the position.</p>	<p>evaluations or periods of turnover. A lack of an accurate job description can increase uncertainty of job expectations, along with confusion of criteria used during performance evaluations.</p> <p>Overall, formally documented policies and procedures can provide a clear understanding to employees and promote balanced treatment to all.</p>		<p>Person Responsible for Implementation: Associate Dean Sandy Farrar and Dean's Assistant Heather Oltmann</p>
<p>3. Risk Assessment and Monitoring</p> <p>Currently there is no formal plan in place to assist in the identification and monitoring of internal controls and significant risks affecting the School, including those related to fraud, waste, or abuse.</p>	<p> Medium</p> <p>In the absence of an effective risk assessment and monitoring program, an enhanced risk exists that the School is potentially not able to recognize risks that may impair the achievement of its strategic and operating objectives. Additionally, the risk of errors or fraud enhances due to a shortage of controls and monitoring.</p>	<p>ATEC should create a plan to assist in identifying the most significant risks, including those related to fraud and risks that affect the School's ability to achieve its strategic and operating objectives.</p> <p>Management should ensure that appropriate controls are in place to monitor the plan and should take adequate and timely actions to correct deficiencies within department operations.</p>	<p>Management's Response: This is a new project for ATEC. We will convene the appropriate staff to formulate the risk management plan.</p> <p>Estimated Date of Implementation: December 1, 2017</p> <p>Person Responsible for Implementation: Associate Dean Sandy Farrar and Financial Analyst Cindy Patton.</p>
<p>4. Cost Center Reconciliations</p> <p>Overall, the cost center reconciliation process is highly centralized with nearly all reviews and approvals being performed within the ATEC business office under the oversight of the School Fiscal Officer.</p>	<p> Medium</p> <p>Failure to timely reconcile and approve cost center reconciliations increases the potential for errors, irregularities and misappropriations to</p>	<p>Any remaining open fiscal year 2016 reconciliations still outstanding that have the ability to be forfeited should be as the University's financials for fiscal year 2016 have closed. Outstanding current fiscal year reconciliations should be</p>	<p>Management's Response: The ATEC Financial Analyst position was just filled in July 2017. This is a priority assignment for the new person.</p> <p>Estimated Date of Implementation:</p>

Observation	Risk	Recommendation	Management's Response and Action Plan
<p><u>Fiscal Year 2016:</u></p> <ul style="list-style-type: none"> Fifty-three percent of reconciliations remained incomplete as of 8/31/2016. Sixteen percent continued to remain incomplete as of 2/23/2017. <p><u>Fiscal Year 2017:</u></p> <ul style="list-style-type: none"> Ninety-five percent of current fiscal year reconciliations were incomplete. 	<p>go unnoticed by cost center owners. Furthermore, not reconciling and approving cost centers in a timely manner increases the risk of noncompliance with cost center regulations and UT Dallas guidelines.</p> <p>Additionally, an adverse side effect of this internal control structure is the potential for information bottlenecks resulting in delays.</p>	<p>cleared as soon as possible.</p> <p>Additionally, moving forward, current reconciliation process should be evaluated and updated as needed to ensure timely yet accurate reconciliations.</p>	<p>September 15, 2017</p> <p>Person Responsible for Implementation: Associate Dean, Sandy Farrar, to oversee implementation by Financial Analyst Cindy Patton</p>
<p>5. Procurement Cards</p> <p>Eighty-four percent of reviewed One Card transactions had not been properly approved. Of these, a supervisor never approved some transactions, and individuals who would be considered the cardholder's subordinate approved others.</p> <p>Approximately \$7,500 in meals purchased with procurement cards were recorded under account code 63001 (Consumables) rather than appropriate meal related account codes.</p>	<p> Medium</p> <p>The potential noncompliance with policies and regulations set forth by the funding sources.</p> <p>Additionally, without the correct account coding, management does not receive an accurate reporting of expense types, which could impair decision-making for future budget decisions.</p>	<p>Cardholder activity reports should be reconciled and approved in a timely manner with proper supporting documentation as prescribed by Procurement Management.</p> <p>Additionally, account codes for purchasing cards (specifically meals) should be reviewed for accuracy and updated as needed.</p>	<p>Management's Response: The ATEC Financial Analyst position was just filled in July 2017. This is a priority assignment for the new person.</p> <p>Estimated Date of Implementation: September 15, 2017</p> <p>Person Responsible for Implementation: Associate Dean, Sandy Farrar, to oversee implementation by Financial Analyst Cindy Patton</p>
<p>6. Communication and Staff Development</p> <p>Concerns were reported regarding the effectiveness and adequacy of organizational wide</p>	<p> Medium</p> <p>A lack of adequate communication and staff development can contribute to internal control</p>	<p>Management should continue to evaluate the communication and staff development needs of the School to ensure adequate/timely information and training is</p>	<p>Management's Response: A calendar of regular staff meetings will be implemented for the new AY. The new Associate Dean of</p>

Observation	Risk	Recommendation	Management's Response and Action Plan
<p>communication including professional development and training (employee onboarding). These concerns noted frustrations regarding the communication of organizational and job duty restructures, along with maintaining an understanding of cost center financials.</p> <p><i>7. [Note: ATEC is currently working towards the enhancement of these concerns with the implementation of staff meetings, and ad-hoc reporting of fund balances, restructuring of cost center ownership/management and the drafting of internal policies and procedures.]</i></p>	<p>breakdowns along with staff frustrations.</p>	<p>distributed across the organization.</p> <p>Additionally, management should review the current onboarding and staff development processes used to ensure that employees have an adequate understanding of their expectations and job duties and knowledge needed to perform those duties.</p>	<p>Operations (Sandy Farrar) will oversee and coordinate communication among operations and technical staff.</p> <p>Dean Balsamo will work with the ATEC Associate Deans to establish regular meetings with various faculty groups: faculty, undergraduate faculty, graduate faculty, untenured faculty, NTT.</p> <p>Staff on-boarding process is being planned, and will be implemented with new hires who will come onboard after the lift of the hiring freeze.</p> <p>New faculty on-boarding process is being planned now.</p> <p>Estimated Date of Implementation: Staff on-boarding: immediate and ongoing</p> <p>New Faculty onboarding: August 2017</p> <p>Person Responsible for Implementation: Associate Dean, Sandy Farrar Associate Dean, Lisa Bell</p>
<p>Self-Reporting of Known Issues and Opportunities</p>		<p>Management should continue to mitigate these risks as noted.</p>	

Observation	Risk	Recommendation	Management's Response and Action Plan
<p>ATEC provided a listing of known issues and opportunities for process enhancements within the School. This listing included the additional topics not covered above:</p> <ul style="list-style-type: none">• Timesheet confirmation and verification• Recruiting <i>Grants Specialist II</i> for contract and grant management• The timely deposit of funds			

Appendix 1: Risk Scorecard

Risk Level	Definition
 Priority	Unreliable controls. High probability of occurrence that would significantly affect UT Dallas or UT System. If not addressed timely, could directly affect achievement of a strategic or important operational objective of UT Dallas or the UT System as a whole.
 High	Significant improvement to controls needed. Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations.
 Medium	Improvement to controls recommended. The risks are considered undesirable and could moderately expose UT Dallas.
 Low	Effective controls. Low probability of various risk factors occurring.
 N/A	Not applicable. Based on the risk assessment that was conducted during the review, testing of this area was not completed.

Appendix 2: Expected Condition – Ratings

Area	Expected Condition (Effective Rating)
Control Environment	
Policies and Procedures	Departmental policies and procedures, including job descriptions, are documented to provide guidance on employee responsibilities.
Governance	An organization structure is in place that supports the achievement of the department and the University's strategic and operating objectives.
Risk Assessment	
Risk Assessment	Management has identified the most significant risks, including those related to fraud, affecting the department's ability to achieve its strategic and operating objectives and has put appropriate controls in place.
Budget Management	Budgets are prepared that align with university and departmental strategic and operating objectives and monitored for appropriateness.
Control Activities	
Conflicts of Interest	Departmental employees follow the conflict of interest and outside employment policies.
Contracting	The department follows university policies regarding contracting for goods and services.
Cost Center Reconciliations	Monthly cost center reconciliations are prepared and reviewed in a timely manner by authorized employees with appropriate job knowledge.
Development	Gifts and endowment revenues are properly recorded and expended in accordance with donor restrictions.
Expenditures	Expenditures are necessary, reasonable, and directly related to the goals and mission of the department.
Human Resources	Departmental employees are hired in accordance with university policies and receive adequate training to perform their jobs responsibilities.
Information Systems	Only authorized employees with a business purpose have access to departmental and university systems.
Key and Card Access	Effective record-keeping systems are in place to ensure periodic reviews of building/office access are in place, including both keys and card access.
Payroll/Timesheets	As applicable, hours worked by employees (including overtime), wage and salary rates and employee leave reports are properly documented and approved in accordance with university policies.
Privacy	Departmental information that is considered sensitive and confidential is properly safeguarded in accordance with FERPA, HIPAA, and/or TAC 202 procedures.
Property	Departmental property custodians monitor departmental property inventories on a periodic basis to ensure assets are properly safeguarded and accounted for in the property system.
Purchasing Cards	Purchasing cards expenses are adequately documented, comply with university procedures, reconciled in a timely manner, and approved by someone other than the cardholder.
Records Management	The department follows the records retention schedule and properly maintains and safeguards departmental information.
Research	The department compliance with contract and grant policies and procedures.
Revenues and Receipts	Deposits are made timely in accordance with University policies, and appropriate documentation is on file.
Safety	Departmental safety issues, including emergency preparedness, lab safety, workplace safety, etc. are properly documented, up-to-date, and distributed to employees within the department.
Segregation of Duties	An adequate segregation of duties exists in the areas of cash management, procurement, budgeting, and human resources processes.

Area	Expected Condition (Effective Rating)
Travel and Entertainment	Travel and entertainment expenses are reasonable, benefit the strategic and operating objectives of the department, contain appropriate documentation, and are properly authorized in accordance with university procedures.
Information and Communication	
Communication	Processes exist to ensure the timely communication of departmental information to employees.
Monitoring	
Monitoring	Management has processes in place that appropriately monitor departmental operations and takes adequate and timely actions to correct deficiencies.